

# MIBA's Compliance Corner

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## *How Will the 2016 ACH Changes Affect Your Bank?*

*By: Kami Bailey, The Whitlock Company*

Is your bank informed about all of the ACH rule updates and changes for 2016? Each year NACHA comes out with improvements to the ACH network and this year they have made a giant leap towards a simpler, faster way to pay and get paid. This is the implementation of phase one of Same Day ACH which will be coming in September of 2016. This change along with a few others coming in 2016 will continue to improve the quality of the ACH network.

### **What are the 2016 NACHA Rule Updates?**

The three main changes coming this year are related to disclosure requirements for POS entries, Same Day ACH, and the addition of an unauthorized entry fee aimed at improving ACH network quality.

### **Disclosure Requirements**

Effective March 18, 2016 originators and third-party senders issuing ACH cards must make a disclosure to consumers prior to card activation. This update further defines what an ACH card is and outlines requirements for financial institutions issuing these cards to clearly identify the terms to the customer to avoid confusion between bank issued debit cards and ACH cards, specifically targeting confusion about potential overdraft fees.

### **Unauthorized Entry Fee**

Another change to be aware of is the implementation of the unauthorized entry fee to improve the quality of transactions within the

ACH network by reducing the amount of ACH debits that are returned as unauthorized. Beginning October 3, 2016 under this rule, an ODFI would pay a fee of \$4.50 per return to the RDFI for each ACH debit that is returned as unauthorized (return reason codes R05, R07, R10, R29, and R51). This rule will give ODFIs economic incentive to improve the quality of the ACH transactions they are originating.

### **Same Day ACH – a brief overview**

The largest change that is being implemented is the first phase of same day ACH processing. This will allow for same-day processing of virtually any ACH payment to any RDFI account. The exception to this will be any IAT entries or individual transactions over \$25,000, they will not be eligible for same-day processing and will still be processed the following business day.

Over the next three years these new Same Day ACH rules will be rolled out and implemented as follows:

- September 23, 2016 (Phase 1)
  - Credit entries only
  - Funds availability at close of RDFI processing day
- September 17, 2017 (Phase 2)
  - **Debit** and credit entries
  - Funds availability at close of RDFI processing day
- March 16, 2018 (Phase 3)
  - Debit and credit entries

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– **Funds availability at 5:00 pm local RDFI time**

Starting September 23, 2016 there will be two new clearing windows offered by ACH operators:

- 10:30 am ET with a settlement at 1:00 pm ET
- 2:45 pm ET with a settlement at 5:00 pm ET

With this change the effective entry date used by originators will become very important as it will be the identifier for whether or not the transaction should be processed same-day. ACH operators will process all ACH entries with a current date in the effective entry date field if it falls within the clearing window as a Same Day ACH payment, this will include stale or invalid effective entry dates.

To assist the RDFI in recovering the costs associated with processing Same Day ACH transactions, a fee of 5.2 cents per transaction will be assessed to the ODFI. This fee will be assessed and collected by ACH operators through established monthly billing.

**How will these changes affect me?**

Banks that originate transactions through the use of ACH cards will have to begin issuing new disclosures to both existing and new cardholders as of March 18, 2016. For existing card holders, the disclosures must be issued within 12 months of the implementation date. Any cards issued on or after March 18, 2016 the disclosures will have to be provided prior to activating the card.

The unauthorized entry fee that begins in October of 2016 will have an impact to originators, the ODFI bank, and the RDFI bank. The originators may start to see additional cost through ODFI imposed fees, if they are not diligent in reducing unauthorized returns. The impact to the ODFI is that they will ultimately bear the costs of the unauthorized entry fees. The RDFI bank will see this unauthorized fee

income credited to their ACH settlement accounts.

The biggest impact of the implementation of phase one for Same Day ACH payments is to the RDFI banks. Instead of settlement occurring once each morning, settlement will now be required to occur three times per day. RDFI banks should start thinking now about how to update their processes to ensure these transactions can be handled appropriately. The new RDFI processes will have to meet both same-day settlement and funds availability requirements starting September 23, 2016. It will be important for ODFI banks to educate their staff and originating customers about their new ability to utilize same-day payments, proper use of the effective entry date, and the potential fees associated with this new service.

If you have any questions about the upcoming ACH changes, please call The Whitlock Company at 417-881-0145. [www.whitlockco.com](http://www.whitlockco.com)



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